FDIC State Profile

Winter 2004

Colorado

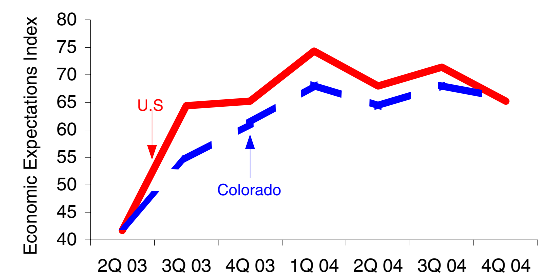
The Colorado economy is expected to grow in 2005.

- The economic recovery in Colorado that began in early 2004 strengthened as the year progressed, and should carry forward throughout 2005.
- State nonfarm employment growth has accelerated on a year ago basis since April 2004, adding slightly more than 20,000 jobs as of September 2004.
- Optimism for the state among Colorado's business leaders is growing, matching similar expectations for the U.S. outlook (See Chart 1). Providing impetus for stronger statewide growth in 2005 will be a strengthening U.S. economy, stronger export growth, and robust business investment, particularly for high technology capital goods.
- Colorado employment growth in 2005 will advance 2 to 3 percent—the state's best performance since 2000, surpassing its previous peak of almost 2.25 million total nonfarm jobs set in December of that year.

Has the curse of the telecom bubble been lifted from the Colorado economy?

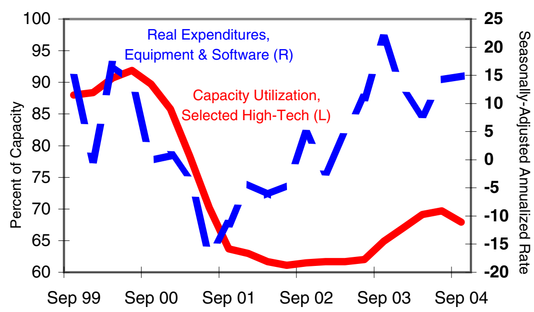
- Dwindling demand for technology products—caused by the over-investment boom of the late 1990s—was partly to blame for the state's severe economic slump in recent years.
- However, business investment in the tech sector has accelerated, strongly reducing excess capacity in key high technology industries (See Chart 2).
- Demand for new equipment and software is posting double-digit gains aided by strong corporate profitability, healthy business balance sheets, low borrowing costs, and solid gains in consumer spending.
- The push to increase productivity, become more competitive, and meet growing demand will result in further investment in 2005, setting the stage for additional growth and job creation in the high-tech sector. ***Denver***, ***Boulder***, and ***Colorado Springs***, collectively have approximately 132,000 jobs concentrated in high-tech employment, and will benefit from growth in this sector.

Chart 1. Business Leaders Are Increasingly Optimistic About The State's Economic Outlook



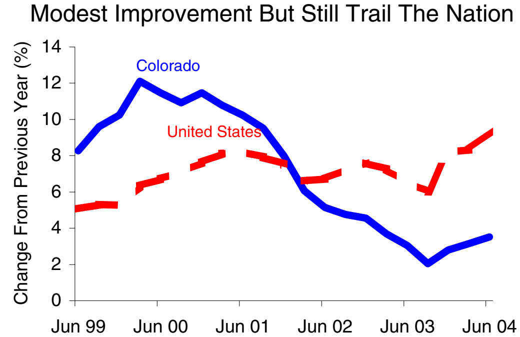
Source: Colorado Business Leaders Confidence Index, Fourth Quarter 2004, prepared by the Business Research Division, University of Colorado at Boulder for Compass Bank

Chart 2. Strong Growth in Equipment Spending Should Reduce Excess Capacity in the High Tech Sector



Sources: Bureau of Economic Analysis and Federal Reserve Board

Chart 3. Colorado Home Prices Have Shown Modest Improvement But Still Trail The Nation



Source: Office of Federal Housing Enterprise Oversight

Although foreclosures are still pressing, the residential real estate outlook is improving.

- According to the *Rocky Mountain News*, almost 10,000 Denver metro-area real estate foreclosures were filed in the first ten months of this year, a 28 percent increase over the same period in 2003. Last year's foreclosures were surpassed only by the 17,122 foreclosures filed in 1988.[1]
- Fortunately, Colorado home price appreciation is slowly accelerating as housing market conditions and the state's economy show continued signs of improvement in 2004.
- The correction in homebuilding that began two years ago has nearly run its course, and home sales remain strong because of low mortgage rates and stronger job and income growth (See Chart 3).
- Although Colorado home price growth will not soon attain the lofty double-digit gains achieved in 1999 and 2000, it is likely to post gains 2 to 3 percent above inflation in 2005.
- Colorado insured institutions reported stable residential loan past-due rates that are in line with national levels. However, rising mortgage foreclosure rates also could be an area to watch, especially if long-term interest rates rise.

Colorado markets remain on the front burner of bank deposit and branch growth because of strong population growth.

- Colorado reported the fastest ten-year growth rate for branches and deposits in the nation. However, high tech job losses have contributed to slower deposit growth. For the five-year period ending June 2004, Colorado ranked 8th in the nation in deposit growth. For the past 12 months, the state ranked 14th.
- While small banks (less than $1 billion in assets) have maintained a steady level of deposits, large banks have acquired additional market share through a history of aggressive branching strategies (See Chart 4).

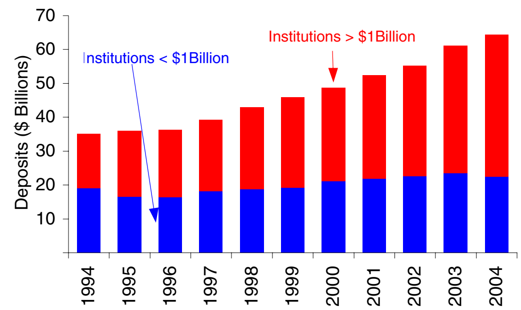
Increasing consumer bankruptcy rates highlight the vulnerability of personal balance sheets.

- Personal bankruptcy rates continued to reach record levels and are more than double the lows experienced prior to the last recession (See Chart 5). Many analysts expect this trend to improve as job growth continues. However, rising interest rates accompanied by the upward trend in consumer debt service burdens suggest this is an area to watch.

Despite weakness in commercial real estate (CRE) markets, lenders have not experienced deterioration in their CRE portfolios.[2]

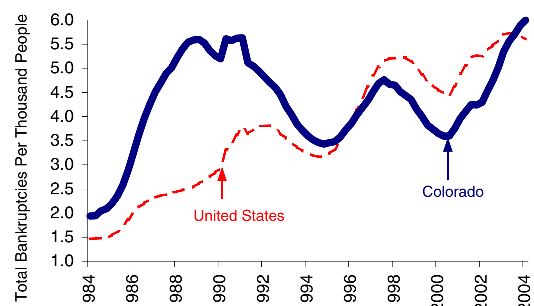
- Denver's office vacancy rate was virtually unchanged at 20.5 percent for the third quarter ending September 30, 2004, ranking third highest in the nation.[3] Analysts believe most leases involve only relocations within the metro area. As the local economy improves, net absorption is expected to strengthen. At the same time, slowing construction activity suggests rents and occupancy should improve going forward.
- Despite general weakness in the CRE sector, Colorado insured institutions have increased CRE exposure to its highest level in a decade, ranking 12th highest nationwide.[4] Even with this heightened exposure, CRE loan past-due and charge-off rates have remained stable over the past five years.

Chart 4: Colorado Branch Deposit Growth Comes Primarily From Large Institutions



Source: FDIC/OTS Summary of Deposits. Data as of June 30th each year.

Chart 5: Colorado Bankruptcy Rates Now Exceed Even The Problems Of The Late 1980s



Source: Administrative Office of the United States Courts/Haver Analytics.

[1] Rebchook, John. "Foreclosure rate 'scary'," Rocky Mountain News, November 10, 2004.

[2] Commercial real estate loans are defined as non-residential real estate, multi-family, and construction and development loans.
[3] According to Torto Wheaton Research, September 30, 2004.
[4] State rankings are based on median CRE loan to capital ratio.

Colorado at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	175	180	181	188	195
Total Assets (in thousands)	38,964,367	48,947,158	50,652,682	50,034,154	46,909,910
New Institutions (# < 3 years)	11	10	9	9	11
New Institutions (# < 9 years)	30	28	25	24	26

Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	8.51	8.33	8.19	8.27	8.46

Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	1.27%	1.38%	1.56%	1.44%	1.05%
Past-Due and Nonaccrual >= 5%	16	19	17	13	14
ALLL/Total Loans (median %)	1.18%	1.20%	1.26%	1.16%	1.09%
ALLL/Noncurrent Loans (median multiple)	2.34	1.92	2.04	2.38	3.14
Net Loan Losses/Loans (aggregate)	0.27%	0.29%	0.26%	0.29%	0.28%

Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	14	16	11	11	10
Percent Unprofitable	8.00%	8.89%	6.08%	5.85%	5.13%
Return on Assets (median %)	1.15	1.13	1.23	1.32	1.30
25th Percentile	0.76	0.68	0.85	0.83	0.91
Net Interest Margin (median %)	4.31%	4.35%	4.70%	4.81%	5.10%
Yield on Earning Assets (median)	5.68%	5.90%	6.81%	8.25%	8.57%
Cost of Funding Earning Assets (median)	1.18%	1.45%	1.97%	3.28%	3.53%
Provisions to Avg. Assets (median)	0.09%	0.12%	0.13%	0.11%	0.11%
Noninterest Income to Avg. Assets (median)	0.79%	0.85%	0.84%	0.86%	0.86%
Overhead to Avg. Assets (median)	3.28%	3.24%	3.35%	3.44%	3.44%

Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	76.18%	73.26%	71.87%	73.76%	74.41%
Loans to Assets (median %)	64.20%	60.48%	63.24%	62.63%	63.87%
Brokered Deposits (# of Institutions)	34	32	23	24	23
Bro. Deps./Assets (median for above inst.)	5.56%	3.88%	4.37%	5.51%	1.97%
Noncore Funding to Assets (median)	15.34%	15.51%	15.31%	14.49%	13.52%
Core Funding to Assets (median)	72.94%	73.26%	73.62%	73.83%	75.10%

Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	92	92	95	98	100
National	46	49	48	54	56
State Member	26	29	28	26	29
S&L	9	9	9	9	9
Savings Bank	2	1	1	1	1
Stock and Mutual SB	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	77	8,827,737	44.00%	22.66%
Denver CO PMSA	53	19,200,443	30.29%	49.28%
Colorado Springs CO	13	1,421,734	7.43%	3.65%
Boulder-Longmont CO PMSA	9	3,065,001	5.14%	7.87%
Greeley CO PMSA	7	1,508,750	4.00%	3.87%
Ft Collins-Loveland CO	7	4,016,917	4.00%	10.31%
Grand Junction CO	6	502,973	3.43%	1.29%
Pueblo CO	3	420,812	1.71%	1.08%